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The centre-right way is the greener way

There are two requirements for a centre-right vision of the net zero transition. The first is liberal principles: the market economy, representative democracy, rule of law, limited but effective and efficient government, the quest for progress, equal opportunities for all, adequate provision of public goods, and respect for property rights, among others. The second is the specific goals and policies needed to keep the Earth, its geochemical process and its ecosystems within working and sustainable parameters or thresholds,

and to promote the energy transition, alongside competitiveness, security, and affordability of energy.

It is possible and necessary to find a path to net zero within these parameters. Under the Paris Agreement, each country finds the path for its own inventory of emissions with precise sectoral policies for decarbonisation. In most cases, countries' emissions principally come from electricity and heat generation, road transport, heavy industry, oil and gas, agriculture or deforestation, in line with the nation's stage of development, geography, demography, economic structure, and past technological and policy choices. In Mexico, transport is the biggest source of emissions, followed (in order of importance) by electricity generation, oil and gas industry, heavy industries (cement, steel, petrochemicals), deforestation, agriculture, and waste management.

Cutting our greenhouse gases will benefit everyone, but it will require some government coordination. This can be done within the boundaries of liberal principles, which advise respect for property rights, legal certainty and the rule of law, an anti-corruption atmosphere, democratic control, markets whenever possible and government intervention only as necessary. Democracy introduces limits to government activism and to climate and energy transition policies: it cannot move faster than public opinion allows, so governments must choose and implement policies and policy instruments that are broadly acceptable.

From a centre-right perspective, government interventions for energy transition should be respectful of democratic processes and institutions. We persuade rather than dictate, and prefer market instruments and incentives over regulation. Property rights must be respected and losses or economic impacts on vulnerable societal groups should be compensated.

Broad alliances between government, the private sector and non-governmental organisations are required, with consumption patterns reoriented through persuasion and education rather than imposition.

Government expenses that imperil fiscal balance must be avoided to not crowd out more efficient private investment. Research and technological development with joint ventures between the private sector, universities, and government are pivotal. Sensible, light-touch regulation may be necessary when there are no other efficient ways or means to achieve crucial climate and energy transition goals. Competitiveness, economic growth, and employment should remain a priority, alongside free trade in cleaner goods and services.

In every policy choice there are winners and losers; the latter would always try to exert a veto, unless an acceptable compensation is applied. Culture, institutions, preferences, consumption patterns, distributive effects, and political conditions determine at the end what is feasible. It is true that politicians tend not to risk the next election by going against them, but it is likewise true that politicians are able to broaden possibilities by means of leadership, education, persuasion, trust, and confidence building. It is a heuristic approach that must be followed in all democratic societies in regard to climate change and energy transition policies: society and political actors determine initial feasibility conditions, then, politicians can work over them to develop new policy opportunities.

In Mexico, a liberally-oriented government made profound constitutional, institutional and legal reforms to the energy sector between 2013 and 2014, aligned with these centre-right principles. The changes opened up our energy sector to competition and investment and established new markets in clean energy certificates. Energy sellers were obliged to buy electricity by means of auctions, in which clean energy was the winner with historically low prices (below 20 USD per megawatt hour).

Generators and distributors were opened up to private investment, and while the natural monopoly of the grid and market operators were kept in state hands, they are now watched by an independent energy regulatory body and are supposed to compete with private firms on a level playing field. No extra compensation for the poor was needed in these liberal reforms given that clean energy and auctions allowed for an explicit policy of lower prices. Low electricity consumption households have historically paid subsidised prices.

These changes eliminated monopolies and opened up the energy sector to competition and investment. They established a system of electric plants dispatch based on economic merit which favoured clean energy, introduced a market for Clean Energy Certificates, determined a gradual clean energy obligation for big energy users, and created specific goals for clean energy in the national electric system. They also kept the grid operator and market operator as a natural monopoly in the hands of the State, opened up to private firms electricity generation as well as distribution and commercialization, and consolidated an independent energy regulatory body, all while putting us on a path to meet our nationally determined contribution (NDC).

Sadly, Mexico is also a case of regression and institutional destruction under an illiberal and populist government that tried, with mixed success, to undo the liberal reforms and to re-establish monopolistic control of the energy sector starting in 2019. It arbitrarily changed dispatch rules to privilege fossil fuel government owned power plants, displacing clean energy privately owned plants. It cancelled electricity generation permits to private firms selling energy to private users and has denied new permits to private clean energy power plants. It harassed foreign private firms that had invested in combined cycle natural gas power plants supplying energy to the market. This was all done through Executive Orders, Energy Ministry directives and legal changes, working outside of the Constitution.

These legal changes have been challenged before the Supreme Court, which has dragged its feet and finally issued a confusing and ambivalent decision in order not to displease the President, who sent a constitutional bill to Congress to completely reverse the previous liberal energy reform. This bill was thankfully rejected by Congress in April 2022, with the votes of all opposition political parties. However, the President maintains his regressive policies, which have created a conflict with the United States under the rules of the North American Free Trade Agreement. Trade sanctions for Mexico loom over the horizon. Government decisions are aimed to hinder private investment and to block private clean energy generators, in spite of the law and the Constitution, and to privilege state-owned electric plants that run with fuel oil and coal, which are costlier to operate, emit greenhouse gases, and pollute the atmosphere with particulate matter, sulphur dioxide, and nitrogen oxides. This statist and monopolistic approach has considerable climate and environmental impacts.

Recently the Mexican government went further, extorting private firms in the energy sector (Iberdrola) to the point of forcing them to sell their assets to the state in a murky and potentially corrupt procedure. Moreover, the government, through the Energy Regulatory Commission, has changed the definition of clean energy to include natural gas combined cycle plants (transferred by Iberdrola), cheating on the Mexican legislation and the Paris Agreement in regards to clean energy generation goals. In 2022, for the first time in years, electricity generation with fossil fuels grew at the expense of renewables. It is clear that the energy transition in Mexico has all but aborted.

Liberal centre-right policies, instruments and institutions, clearly, are not irreversible, and have to be defended continuously, especially in Latin America, a region that has a strange penchant to bring to power from time to time destructive and regressive populist left-wing parties and politicians.

Hopefully, in Mexico, a forthcoming new liberal government in 2024 may revert to the liberal reforms of 2013 -2014, reinvigorating the energy market, private investment in clean energy, competition, and the energy transition. New and more ambitious clean energy requirements should be introduced, which will allow Mexico to put together a new and ambitious NDC truly aligned with the Paris Agreement goals.